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Capital-Raising Transactions. As part of our ongoing efforts to develop a capital structure that is more closely aligned with the cash-generating potential of our asset-based businesses, each of which is subject to cyclical changes in commodity prices, we have previously indicated our intent to explore additional capital-raising transactions both in the near- and long-term. These transactions may include public or private equity issuances. Our ability to issue public equity is enhanced by our effective shelf registration statement, under which we have approximately \$430 million in remaining availability. However, the receptiveness of the capital markets to a public equity issuance cannot be assured and may be negatively impacted by, among other things, our non-investment grade credit ratings, significant debt maturities, long-term business prospects and other factors beyond our control. Our ability to issue private equity could be similarly affected by these factors and, if such an issuance were completed, would likely be more costly, both in terms of required rates of return and other requirements typically associated with this type of transaction. Any issuance of equity likely would have other effects as well, including shareholder dilution.

The proceeds from any such issuance would be subject to the mandatory prepayment provisions contained in our financing agreements. Please read Note 12—Debt—DHI Credit Facility beginning on page F-37 of our Form 10-K for further discussion.

Conclusion

For the rest of 2004, assuming continuation of the current commodity pricing environment, we expect that our operating cash flows will be insufficient to satisfy our capital expenditures, debt maturities, increased interest expenses and operating commitments. However, we believe that our cash on hand, together with proceeds from anticipated asset sales and capacity under our revolving credit facility, will be sufficient to discharge these obligations during this period. To further our deleveraging efforts, we also intend to explore other capital-raising activities, including potential public or private equity issuances. Our ability to raise additional funds may impact our ability to settle our significant ongoing litigation, as well as one or more of our four remaining power tolling arrangements, with respect to which we have substantial fixed payment obligations extending well into the future.

Our liquidity position and financial condition will be materially affected by a number of factors, including our ability to consummate non-core asset sales, including the Illinois Power sale to Ameren, and, over the longer term, to generate cash flows from our asset-based energy businesses in relation to our substantial debt and commercial obligations, including increased interest expense, the fixed payment obligations associated with our CRM business and counterparty collateral requirements. The sale of Illinois Power would provide significant cash proceeds to repay outstanding debt and advance our business strategy of focusing on our unregulated energy businesses. Our future financial success is also substantially dependent on our ability to renew or replace our \$1.1 billion revolving credit facility, which is scheduled to mature on February 15, 2005, with respect to which our ability to borrow and/or issue letters of credit could become increasingly important.

Our ability to generate operating cash flows from our asset-based energy businesses will be impacted by a number of factors, some of which are beyond our control, including weather, commodity prices, particularly for power and natural gas, and the success of our ongoing efforts to manage operating costs and capital expenditures. Over the longer term we believe that power prices will improve in some or all of the regions in which we operate as the supply-demand imbalance for power decreases. Much of the restructuring work that we did in 2003 has extended our significant debt maturities from 2005-2006 to 2008 and beyond, positioning us to benefit from earnings and growth opportunities associated with this expected recovery in the U.S. power markets. Additionally, although depressed frac spreads (i.e., the relationship between prices for natural gas and natural gas liquids) have negatively impacted our NGL segment's downstream operations, our upstream business is currently operating in a relatively favorable pricing environment. Our future financial condition and results of operations will be materially adversely affected if the U.S. power markets fail to recover in accordance with our expectations or if we experience significant pricing deterioration in the NGL segment.

Please read "Uncertainty of Forward-Looking Statements and Information" for additional factors that could impact our future operating results and financial condition.

Table of Contents**FACTORS AFFECTING FUTURE RESULTS OF OPERATIONS**

In “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview” beginning on page 36 of our Form 10-K, we detailed the primary factors that have impacted, and are expected to continue to impact, the earnings and cash flows from our business segments and other operations. Our results of operations during the remainder of 2004 and beyond may be significantly affected by any or all of these factors, including the following factors in particular:

- Changes in commodity prices, including the relationships between prices for power and natural gas or other power generating fuels, commonly referred to as the “spark spread” or “dark spread” depending on the fuel type, and the frac spread;
- Our ability to control our capital expenditures, which primarily are limited to maintenance, safety, environmental and reliability projects, and other costs through disciplined management and safe, efficient operations;
- The impact of reduced market liquidity and counterparty collateral demands on our ability to sell our energy products through forward sales or similar transactions;
- Our ability to address the substantial long-term payment obligations associated with our four remaining power tolling arrangements, the restructuring or termination of one or more of which likely would require a significant cash payment; and
- The impact of increased interest expense primarily attributable to our recent restructuring and refinancing transactions and our non-investment grade credit ratings.

Please read “Uncertainty of Forward-Looking Statements and Information” for additional factors that could impact our future operating results.

RESULTS OF OPERATIONS

Overview and Discussion of Comparability of Results. In this section, we discuss our results of operations, both on a consolidated basis and, where appropriate, by segment, for the three-month periods ended March 31, 2004 and 2003. At the end of this section, we have included our 2004 outlook for each segment.

We report our operations in the following segments: GEN, NGL, REG and CRM. Other reported results include corporate overhead and our discontinued communications business. All direct general and administrative expenses incurred by us on behalf of our subsidiaries are charged to the applicable subsidiary as incurred. Other income (expense) items incurred by us on behalf of our subsidiaries are charged directly to the four segments.

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Summary Financial Information. The following tables provide summary financial data regarding our consolidated and segmented results of operations for the three-month periods ended March 31, 2004 and 2003, respectively:

Quarter Ended March 31, 2004

	<u>GEN</u>	<u>NGL</u>	<u>REG</u>	<u>CRM</u>	<u>Other and Eliminations</u>	<u>Total</u>
				(in millions)		
Operating income (loss)	\$ 53	\$ 67	\$ 60	\$ (13)	\$ (53)	\$ 114
Earnings from unconsolidated investments	38	2	—	—	—	40
Other items, net	—	(4)	1	3	11	11
Interest expense						(132)
Income from continuing operations before taxes						33
Income tax benefit						27
Income from continuing operations						60
Income from discontinued operations, net of taxes						14
Net income						\$ 74

Quarter Ended March 31, 2003

	<u>GEN</u>	<u>NGL</u>	<u>REG</u>	<u>CRM</u>	<u>Other and Eliminations</u>	<u>Total</u>
				(in millions)		
Operating income (loss)	\$ 83	\$ 51	\$ 59	\$ 38	\$ (44)	\$ 187
Earnings from unconsolidated investments	39	3	—	11	—	53
Other items, net	3	(5)	—	26	(3)	21
Interest expense						(110)
Income from continuing operations before taxes						151
Income tax expense						(56)
Income from continuing operations						95
Loss on discontinued operations, net of taxes						(3)
Cumulative effect of change in accounting principles, net of taxes						55
Net income						\$ 147

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The following table provides summary segmented operating statistics for the three months ended March 31, 2004 and 2003, respectively:

	Quarter Ended March 31,	
	2004	2003
Power Generation		
Million megawatt hours generated—gross	10.6	9.9
Million megawatt hours generated—net	10.1	9.4
Average natural gas price—Henry Hub (\$/MMBtu)(1)	\$ 5.61	\$ 6.30
Average on-peak market power prices (\$/MW hour)		
Cinergy	\$ 42	\$ 50
Commonwealth Edison	\$ 41	\$ 48
Southern	\$ 43	\$ 49
New York—Zone G	\$ 64	\$ 75
ERCOT	\$ 41	\$ 47
Natural Gas Liquids		
Gross NGL production (MBbls/d):		
Field plants	57.9	56.0
Straddle plants	23.9	26.8
Total gross NGL production	81.8	82.8
Natural gas (residue) sales (Bbtu/d)	217.1	209.5
Natural gas inlet volumes (MMCFD):		
Field plants	566.4	567.6
Straddle plants	867.4	1,394.2
Total natural gas inlet volumes	1,433.8	1,961.8
Fractionation volumes (MBbls/d)	185.0	175.5
Natural gas liquids sold (MBbls/d)	301.4	364.3
Average commodity prices:		
Crude oil—WTI (\$/Bbl)	\$ 34.77	\$ 34.43
Natural gas—Henry Hub (\$/MMBtu)(2)	\$ 5.69	\$ 6.61
Natural gas liquids (\$/Gal)	\$ 0.62	\$ 0.62
Fractionation spread (\$/MMBtu)—daily	\$ 1.39	\$ 0.67
Regulated Energy Delivery		
Electric sales in KWH (millions)		
Residential	1,455	1,433
Commercial	1,054	1,058
Industrial	1,320	1,405
Transportation of customer-owned electricity	629	549
Other	98	99
Total electric sales	4,556	4,544
Gas sales in Therms (millions)		
Residential	160	185
Commercial	58	72
Industrial	19	23
Transportation of customer-owned gas	69	65
Total gas delivered	306	345

Heating degree days—Actual(3)	2,708	2,935
Heating degree days—10-year rolling average	2,678	2,587

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- (1) Calculated as the average of the daily gas prices for the period.
- (2) Calculated as the average of the first of the month prices for the period.
- (3) A Heating Degree Day (HDD) represents the number of degrees that the mean temperature for a particular day is below 65 degrees Fahrenheit in our region. The HDDs for a period of time are computed by adding the HDDs for each day during the period.

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The following tables summarize significant items on a pre-tax basis, with the exception of the 2004 tax item, affecting net income for the periods presented.

Quarter Ended March 31, 2004						
	GEN	NGL	REG	CRM	Other	Total
	(in millions)					
Discontinued operations	\$—	\$—	\$—	\$ 17	\$ 3	\$ 20
Gain on sale of Hackberry LNG	—	17	—	—	—	17
Loss on anticipated sale of IP	—	—	(15)	—	—	(15)
Legal and severance reserves	2	—	(2)	—	(15)	(15)
Taxes	—	—	—	—	39	39
Total	\$ 2	\$ 17	\$ (17)	\$ 17	\$ 27	\$ 46

Quarter Ended March 31, 2003						
	GEN	NGL	REG	CRM	Other	Total
	(in millions)					
Discontinued operations	\$—	\$—	\$—	\$ (15)	\$ 2	\$ (13)
Cumulative effect of change in accounting principles	47	—	(3)	43	—	87
Total	\$ 47	\$—	\$ (3)	\$ 28	\$ 2	\$ 74

Operating Income

Operating income was \$114 million for the quarter ended March 31, 2004, compared to \$187 million for the quarter ended March 31, 2003.

GEN. Operating income for the GEN segment was \$53 million for the quarter ended March 31, 2004, compared to \$83 million for the quarter ended March 31, 2003. Operating income in 2004 included a \$26.5 million decrease related to pricing and a \$14.9 million increase due to generated volumes versus 2003. The decrease related to pricing includes the mark-to-market effects of changes in the fair value of derivative contracts not accounted for as hedges, as further discussed below. Higher demand in the Midwest and Northeast regions because of colder than normal weather conditions during the first quarter 2003 that did not re-occur in the first quarter of this year resulted in significantly lower average prices in 2004. Average on-peak prices in the Midwest and Northeast regions during the first quarter 2004 decreased 13 percent and 15 percent, respectively. The earnings from our peaking generation facilities, which include both capacity and energy sales, continued to be unfavorably impacted by compressed natural gas spark spreads and overcapacity in the generation marketplace in the first quarter 2004.

Aggregate volumes were 8% higher quarter over quarter. The net MWh generated in the Midwest during the first quarter 2004 remained flat relative to the same period in 2003 at 5.5 million MWh. However, the Northeast produced 2.3 million MWh in 2004 compared to 1.4 million MWh in 2003. Higher volumes in the Northeast resulted primarily from Roseton's dual fuel capability and increased run time due to the favorable spread between fuel oil and natural gas prices.

The decrease in operating income in the first quarter 2004 also reflects the loss of approximately \$6 million of capacity revenues in the Southeast region related to a contract that expired at the end of 2003. Depreciation and amortization expense increased approximately \$6 million quarter over quarter, largely due to the completion of the Rolling Hills facility in June 2003. Additionally, the first quarter 2004 includes an increase of approximately \$5 million in operating expenses over the first quarter 2003 due to the timing of expenditures and an increase in generated volumes.

GEN's reported operating income for the 2004 and 2003 periods includes approximately \$3.5 million and \$13.4 million, respectively, of mark-to-market income related to derivative contracts that did not meet the criteria for hedge accounting under SFAS No. 133 and, therefore, were accounted for on a mark-to-market basis.

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In March 2004, we tested our CoGen Lyondell facility for an impairment based on the identification of a triggering event as defined by SFAS No. 144. After performing the test, we concluded that no impairment was necessary as the estimated undiscounted cash flows exceeded the book value of the facility.

NGL. Operating income for the NGL segment was \$67 million for the quarter ended March 31, 2004, compared to \$51 million for the quarter ended March 31, 2003. Operating income for the first quarter 2004 included a \$17 million gain associated with the sale of our remaining financial interest in the Hackberry LNG project; operating income for the first quarter 2003 included a \$2.5 million gain associated with the expiration of an environmental guarantee. Please see Note 2—Dispositions and Discontinued Operations for further discussion. Also, please read Item 1. Business—Segment Discussion—Natural Gas Liquids beginning on page 7 of our Form 10-K for a detailed description of the NGL segment, including its contract portfolio.

While overall profitability of the NGL segment was relatively flat quarter over quarter, we experienced higher results in our gathering and gas processing assets and lower results in our wholesale marketing and marketing businesses as compared to 2003.

Gathering and processing experienced 14% lower absolute commodity prices for natural gas and approximately the same price for natural gas liquids in the first quarter 2004. Frac spreads increased quarter over quarter but continued to be lower than required to support liquids extraction under keep whole processing contracts. The shift from approximately 85% percentage of proceeds and 15% keep whole contracts to almost 98% percentage of proceeds contracts contributed to a 7% increase in processing plant margins at our field plants even in the current lower commodity price environment. Net natural gas liquids production declined and natural gas net to our account increased as compared to 2003 due to the difference in settlement terms between the two types of contracts. Gross natural gas liquids production for field plants increased by 3% quarter over quarter, primarily due to increased production in the highly active drilling area in North Texas.

Processing margins at our straddle plants were 33% lower and liquids volumes produced were 11% lower than in 2003. Frac spreads in 2004 increased to \$1.39, up from \$0.67 in 2003. Even at this higher frac spread, it is still not profitable to recover liquids in most cases. Straddle plant volumes declined year-on-year as fewer interstate pipelines enforced operational flow orders to control hydrocarbon quality specifications in 2004 compared to 2003.

In our downstream business, volumes available for fractionation increased slightly to 185.0 MBbls/d in 2004 versus 175.5 MBbls/d in 2003. Volumes increased at both our Mont Belvieu and Lake Charles plants. Higher import volumes benefited Mont Belvieu, and we saw more volume at our Lake Charles fractionator as a third-party processing plant that feeds our fractionator resumed processing.

In our wholesale marketing operations, results were materially the same quarter over quarter. We again experienced strong weather-driven propane sales in our market areas in the first quarter 2004 and comparable natural gas liquids commodity prices on contracts where we retain a percentage of the sales price as a fee for marketing natural gas liquids on behalf of others, such as in our refinery services agreements. Our marketing results declined from prior period levels as the same period of 2003 experienced high volatility and a strong and steady increase in natural gas liquids prices resulting in high margins throughout the quarter, while this year prices were relatively stable during the quarter. We continue to be impacted negatively due to reduced overall market liquidity. Marketed volumes declined from approximately 364.3 MBbls/d in the first quarter 2003 to approximately 301.4 MBbls/d in the first quarter 2004 due to our decision to curtail low margin sales and reduce inventory risk. This volumetric decline had little impact on our operating income.

REG. Operating income for the REG segment was \$60 million for the quarter ended March 31, 2004, compared to \$59 million for the quarter ended March 31, 2003. The 2004 period includes a \$15 million charge related to the anticipated sale of Illinois Power. We also stopped depreciating our Illinois Power assets on February 1, 2004, as they are classified as held for sale, which resulted in a benefit to operating income of \$20 million compared to the quarter ended March 31, 2003.

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Operationally, this segment was negatively impacted in 2004 as compared to 2003 by warmer than normal winter weather, which resulted in reduced residential and commercial gas sales volumes. Electric sales were relatively flat as a reduction in commercial and industrial demand was offset by an increase in residential demand. Operating expenses in 2004 were negatively impacted by higher employee pension costs and costs associated with personal injury and other damage claims.

CRM. Operating income (loss) for the CRM segment was \$(13) million for the quarter ended March 31, 2004, compared to \$38 million for the quarter ended March 31, 2003. Results for 2004 primarily relate to fixed payments on our remaining power tolling arrangements in excess of realized margins on power generated and sold. Results for 2003 include approximately \$61 million associated with sales of natural gas in storage which had previously been recorded at fair value (please read Note 1—Accounting Policies—Revenue Recognition for additional details) and gains in value of our remaining marketing and trading portfolio.

Other. Other operating loss was \$53 million for the quarter ended March 31, 2004, compared to \$44 million for the quarter ended March 31, 2003. Results for 2004 include approximately \$15 million of expenses related to increased legal and severance reserves. The increased legal reserves resulted from additional activities during the quarter that affected management's assessment of the probable and estimable loss associated with the applicable proceedings. Please read Note 3—Restructuring Charges for a discussion of the increased severance reserve. This increase was partially offset by lower compensation costs in the 2004 period.

Earnings from Unconsolidated Investments.

Our earnings from unconsolidated investments were approximately \$40 million for the quarter ended March 31, 2004, compared to \$53 million for the quarter ended March 31, 2003.

GEN. GEN's earnings from unconsolidated investments were approximately \$38 million for the quarter ended March 31, 2004, compared to \$39 million for the quarter ended March 31, 2003. Earnings from our West Coast Power investment are the primary driver of results for each of these periods. West Coast Power provided equity earnings of approximately \$35 million for the quarter ended March 31, 2004, compared to \$29 million for the quarter ended March 31, 2003.

Earnings at West Coast Power were higher quarter over quarter due to higher realized margins resulting from forward hedges put in place in connection with the execution of the CDWR contract. Please read Item 1. Business—Segment Discussion—Power Generation—West region—Western Electricity Coordinating Council (WECC) beginning on page 6 of our Form 10-K for further discussion of the CDWR contract.

As described above under “—Liquidity and Capital Resources—External Liquidity Sources—Asset Sale Proceeds,” in January 2004, we sold our 17.55% interest in a 74 MW power generating facility located in Jamaica for \$5.5 million in net aggregate proceeds. We did not recognize a gain or loss on the sale. In February 2004, we entered into a definitive agreement to sell our 50% interest in the 123 MW Michigan Power power generating facility. This transaction is targeted to close during the second quarter 2004, subject to the receipt of required lender and counterparty consents, and is expected to generate aggregate net cash proceeds of approximately \$25 million. In the first quarter 2004, we recorded an impairment of approximately \$7 million related to the anticipated sale of Michigan Power which offset our share of Michigan Power's earnings for the quarter. The net loss related to Michigan Power recorded in the first quarter 2004 was \$2.3 million. Please read Note 5—Unconsolidated Investments for further discussion of our accounting relating to this pending sale. We are continuing to pursue opportunities to sell our interests in other domestic and international projects, none of which are considered core to our power generation business.

NGL. NGL's earnings from unconsolidated investments were approximately \$2 million for the quarter ended March 31, 2004, compared to \$3 million for the quarter ended March 31, 2003. Lower realized liquids prices at our VESCO partnership complex and lower fractionation fees at our Gulf Coast Fractionator investment contributed to this decline in earnings.

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CRM. CRM's earnings from unconsolidated investments were zero for the quarter ended March 31, 2004, compared to \$11 million for the quarter ended March 31, 2003. As of December 31, 2003, CRM has no material unconsolidated investments. As such, 2004 and future results are expected to be de minimis. The earnings in 2003 primarily related to our Nicor Energy joint venture, the operations of which were sold in the first half of 2003.

Interest Expense

Interest expense totaled \$132 million for the quarter ended March 31, 2004, compared to \$110 million for the quarter ended March 31, 2003. The significant increase in 2004, as compared to 2003, is attributable to higher average interest rates on borrowings related to the new securities issued in connection with our August and October 2003 refinancings. This increase is slightly offset by lower average principal balances in the 2004 period compared to the 2003 period.

Other Items, Net

Other items, net consists of other income and expense items, net, minority interest income (expense) and accumulated distributions associated with trust preferred securities. Other items, net totaled \$11 million for the quarter ended March 31, 2004, compared to \$21 million for the quarter ended March 31, 2003. The decrease in 2004, as compared to 2003, is due to lower minority interest income, partially offset by mark-to-market income recognized in the first quarter 2004 associated with interest rate swaps.

Income Tax Benefit / (Expense)

We reported an income tax benefit during the quarter ended March 31, 2004 of \$27 million. The income tax benefit is the net of \$12 million of income tax expense from continuing operations and a \$39 million benefit associated with reducing a valuation allowance related to our significant capital loss carryforward, which primarily relates to our third quarter 2002 sale of Northern Natural Gas Company. We reduced the valuation allowance related to our capital loss carryforward as a result of capital gains expected to be recognized from anticipated non-core asset sales in 2004. Excluding this item, the 2004 effective tax rate would be 36%, compared to 37% in 2003. In general, differences between these effective rates and the statutory rate of 35% result primarily from the effect of certain foreign and state income taxes and permanent differences attributable to book-tax differences.

Discontinued Operations

Discontinued operations includes our global liquids business in the NGL segment, our U.K. natural gas storage assets and our U.K. CRM business in the CRM segment and our communications business in Other and Eliminations. The largest contributor to the pre-tax gain of \$20 million (\$14 million after-tax) for the quarter ended March 31, 2004 is the U.K. CRM business, primarily due to translation gains recognized on the repatriation of cash from the U.K. The largest contributor to the pre-tax loss of \$13 million (\$3 million after-tax) for the quarter ended March 31, 2003 is the pre-tax loss from operations of our U.K. CRM operations.

Cumulative Effect of Change in Accounting Principles

We reflected EITF Issue 02-03's rescission of EITF Issue 98-10 effective January 1, 2003 as a cumulative effect of a change in accounting principle. The net impact was a pre-tax benefit of \$33 million (\$21 million after-tax), of which a benefit of \$43 million was recognized in our CRM segment and a charge of \$10 million was recognized in our GEN segment. We also adopted SFAS No. 143 effective January 1, 2003 and recognized a pre-tax benefit of \$54 million (\$34 million after-tax) associated with its implementation. The \$54 million benefit was split between our GEN (\$57 million) and REG (\$3 million) segments.

Please read Note 1—Accounting Policies for further discussion of our adoption of new accounting policies.

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Preferred Stock Dividends

The \$5 million preferred stock dividend recognized in the first quarter 2004 is related to our Series C convertible preferred stock, which accumulates dividends at an annual rate of 5.5%. The 2003 dividend of \$83 million related to the Series B preferred stock that included an implied dividend of \$660 million, which was amortized over a two-year period. Please read Note 15—Redeemable Preferred Securities beginning on page F-48 of our Form 10-K for a description of the August 2003 exchange of the Series B preferred stock for, among other things, the Series C preferred stock, and the impact on the associated dividends.

2004 Outlook

The following summarizes our outlook for the remainder of 2004 for our four reportable segments.

GEN Outlook. This segment's future financial results will continue to reflect a sensitivity to power prices and weather conditions. We will continue our efforts to manage price risk through the optimization of fuel procurement and the marketing of power generated from our assets. Our sensitivity to prices and our ability to manage this sensitivity is subject to a number of factors, including general market liquidity, particularly in forward years, our ability to provide necessary collateral support and the willingness of counterparties to transact business with us given our non-investment grade credit ratings.

As discussed in Item 1. Business—Segment Discussion—Power Generation beginning on page 2 of our Form 10-K, we enter into sales of capacity from our generation assets, which provide a revenue stream independent of energy sales. In late 2003 and continuing into 2004, we have seen increases in the market for capacity-related products from our peaking and intermediate generation facilities.

At the beginning of 2004, a substantial portion of our 2004 operating margin was under contract or hedged. The primary contracts included the CDWR contract held by West Coast Power and the Illinois Power power purchase agreement. Our future results of operations will be significantly impacted by our ability to extend or renew these agreements. West Coast Power, whose equity earnings are primarily derived from the CDWR contract, has been our largest contributor in terms of earnings from unconsolidated investments. The scheduled expiration of the CDWR contract in December 2004 will negatively impact the fair value of our investment in West Coast Power. As the value of the CDWR contract is realized through 2004, the fair value of our investment in West Coast Power will decline and, accordingly, we anticipate that the remaining value of the investment will be less than its book value. As a result, we will evaluate our investment quarterly and anticipate such reviews will necessitate an impairment of our investment of approximately \$70 to \$80 million during the remainder of 2004. Please read Note 9—Commitments and Contingencies—Summary of Material Legal Proceedings—Western Long-Term Contract Complaints for further discussion of the legal challenges to the CDWR contract. Please also read “—Liquidity and Capital Resources—Internal Liquidity Sources—Cash Flows from Operations” for a discussion of our efforts to seek a renewal or replacement of the CDWR contract.

The current power purchase agreement between DMG and Illinois Power will terminate on December 31, 2004. In connection with the sale of Illinois Power to Ameren, DPM has agreed, conditioned on the closing of the sale, to enter into a two-year power purchase agreement with Ameren with volumes comparable to our current agreement. However, in the event the sale of Illinois Power to Ameren does not close before the end of 2004, DPM and Illinois Power will enter into an interim power purchase agreement that would take effect once regulatory approval is obtained and only if the pending sale is not completed by December 31, 2004. This interim power purchase agreement would remain in effect only until the earlier of the closing of the pending sale or December 31, 2006, which latter date coincides with the expiration of the retail electric rate freeze in the State of Illinois. The interim power purchase agreement, which would provide for capacity and energy to serve Illinois Power's customers through 2006 if the pending sale is not consummated, contains terms and conditions, including pricing terms, substantially similar to those contained in the Ameren power purchase agreement.

We recently executed agreements to sell our 50% interests in the 424 MW Oyster Creek power generating facility and the 123 MW Michigan Power power generating facility. Additionally, we are continuing to pursue sales of our interests in a number of other similar facilities that we consider non-strategic to this business, including the

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Commonwealth, Black Mountain, Hartwell and Panama facilities. We hold ownership interests of 50% in each of these projects, which aggregate less than 500 MWs of net generating capacity. These investments contributed approximately \$25 million in earnings to our full year 2003 results, exclusive of any impairment charges. Please read Note 5—Unconsolidated Investments—GEN Investments for further discussion of these investments. Additionally, the pending transaction with Ameren includes the sale of our 20% interest in the Joppa facility, which contributed approximately \$3.3 million in earnings from unconsolidated investments in our full year 2003 results. Our ability to consummate these sales on the terms and within the timeframes we anticipate is subject to several factors, many of which are beyond our control, including the willingness of lenders and other counterparties to consent to a proposed transaction.

NGL Outlook. This segment's financial results will continue to reflect sensitivity to natural gas and natural gas liquids prices, and we expect that the 2004 pricing environment will continue to be similar to what we experienced in 2003. Our upstream contract settlements under percentage of proceeds and percentage of liquids contracts will continue to benefit from these relatively high prices; our hybrid contracts, which are sensitive to frac spread, will generally revert from percentage of liquids settlements to fee settlements. Natural gas liquids production from both our own and third-party natural gas processing plants that are exposed to frac spread will continue to be reduced as frac spreads remain lower than that required to justify economic extraction of natural gas liquids in today's natural gas price environment.

The impact of these lower processing volumes is an ongoing reduction of natural gas liquids supply to our and third parties' fractionation, storage and distribution infrastructure, similar to 2003. Accordingly, aggressive competition exists between fractionators for available volumes, causing a reduction in fees paid for fractionation services.

Straddle plant gas processing in the Gulf of Mexico will continue to be negatively impacted by uncertainty surrounding the determination of gas quality specifications for liquefiable hydrocarbons. Over the past several years extraction economics have been generally poor, causing pipeline companies to become increasingly concerned about heavy hydrocarbons that have been left in the natural gas entering their systems instead of being extracted. These heavy hydrocarbons cause pipeline operational and safety concerns. As a result, many have used emergency powers (operational flow orders or critical notices) to force producers to extract heavy hydrocarbons by processing their gas. While industry stakeholders respond to recent FERC decisions directing pipeline companies to address this issue in their tariff, there is significant lack of clarity around when and where processing is required. The result is a patchwork of pipeline policies and practices, leaving producers and processors without clearly defined ground rules. As a result, contracting gas and planning straddle plant operations are difficult. Resolution of the issue is currently being pursued through the Natural Gas Council, FERC and other affected stakeholders.

Drilling rig rates for natural gas throughout our core processing areas in New Mexico, West Texas, North Texas and offshore Louisiana continue to increase, consistent with natural gas prices that have averaged \$5—\$6/MMBtu. Continued exploration and production at these levels will benefit our upstream business by providing additional volumes for gathering and processing. If natural gas prices were to decline in the future, resulting in reduced drilling activities, this segment's results could be adversely affected.

While we have not experienced significant turnover in customer contracts as a result of our non-investment grade credit ratings, we have been required to provide collateral or other adequate assurance of our obligations in connection with many of our commercial relationships. On occasion, we have been unable to efficiently satisfy a potential new customer's concerns about our credit ratings. We expect similar collateral requirements until such time as our credit ratings measurably improve. Our ability to hedge future natural gas liquids production during 2004 will again be limited by reduced market liquidity and our obligation to post collateral.

We intend to continue our aggressive North Texas gathering system expansion, where additional compression and plant debottlenecking are expected to add volumes to our expanded Chico gas processing plant. We also intend to continue to review our asset portfolio to maximize return on investment. We have identified and sold a few assets that are not strategic to our core operations, including our interests in Hackberry LNG and Indian Basin. We may

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pursue sales of other assets if the price is sufficient to mitigate the anticipated impact on future earnings. Please see “—Liquidity and Capital Resources—External Liquidity Sources—Asset Sale Proceeds” for further discussion.

REG Outlook. Future results of operations for the REG segment may be affected, either positively or negatively, by regulatory actions (with respect to rates or otherwise), general economic conditions, weather and customers choosing to utilize competitive alternate service providers. Also, the effects of the REG segment on our consolidated results of operations will be significantly impacted by our ability to consummate the pending sale of Illinois Power to Ameren.

Illinois Power’s ability to meet its capacity and energy needs beyond 2004 is addressed in connection with the pending sale of Illinois Power to Ameren. Pursuant to a related agreement, which is conditioned upon the closing of the transaction, Illinois Power will purchase 2,800 MWs of capacity and up to 11.5 million MWh of energy from DPM at fixed prices for two years beginning in January 2005. Additionally, DPM will sell 300 MWs of capacity in 2005 and 150 MWs of capacity in 2006 to Illinois Power at a fixed price with an option to purchase energy at market-based prices. Any capacity and energy needs not met by this agreement would be secured from either existing agreements, through a specified competitive purchasing process, or, in limited circumstances, through open market purchases. Please read “—2004 Outlook—GEN Outlook” above for a discussion of alternate arrangements being pursued relative to the closing of the pending sale to Ameren.

With no alternate suppliers certified by the ICC to provide residential electric service pursuant to the Customer Choice Law, Illinois Power does not expect to experience any residential customer switching in 2004. In the first quarter 2004, 0.12% and 31.1% of our commercial and industrial loads, respectively, were served by other energy providers. We anticipate that by the end of 2004, additional load representing 7% of industrial sales may switch from bundled and PPO service to alternate energy providers. We also anticipate that incremental switching to alternate energy providers by our commercial customers will be minimal. Actual switching will be influenced in part by market based energy prices, plus any delivery charges, relative to bundled and PPO offerings that Illinois Power is required to provide.

CRM Outlook. Our CRM business’ future results of operations will be significantly impacted by our ability to execute our exit strategy. We continue to explore opportunities to assign or renegotiate the terms of our remaining long-term power tolling arrangements as well as the related gas transportation agreements. If we do not renegotiate or terminate these power tolling arrangements, these arrangements will continue to negatively impact our earnings and cash flows based on the current pricing environment. Even if we do renegotiate or terminate some of these arrangements, we could be required to pay a significant amount of cash relating to any such renegotiation or termination which would also negatively impact earnings and cash flows. For a discussion of our annual and long-term obligations under these arrangements, see Item 1. Business—Segment Discussion—Customer Risk Management beginning on page 18 of our Form 10-K.

The earnings of the CRM segment may also be significantly impacted, either positively or negatively, by mark-to-market changes in the value of a derivative contract associated with the Sithe Independence tolling agreement as power and gas prices change.

We have posted approximately \$164 million of collateral associated with this business. Approximately \$15 million of this balance relates to our tolling arrangements. An additional \$43 million relates to the ABG Gas Supply gas contract, which will expire in the first quarter of 2006. The remaining \$106 million is related to our legacy gas and power positions, which collateral will be substantially eliminated by 2007.

Table of Contents**Cash Flow Disclosures**

The following tables include data from the operating section of the condensed consolidated statements of cash flows and include cash flows from our discontinued operations, which are disclosed on a net basis in loss on discontinued operations, net of tax, in the condensed consolidated statements of operations:

	For the Quarter Ended March 31, 2004					
	<u>GEN</u>	<u>NGL</u>	<u>REG</u>	<u>CRM</u>	<u>Other & Eliminations</u>	<u>Consolidated</u>
	(in millions)					
Operating Cash Flows Before Changes in Working Capital	\$138	\$ 69	\$ 57	\$(43)	\$ (103)	\$ 118
Changes in Working Capital	24	52	83	(42)	(68)	49
Net Cash Provided by (Used in) Operating Activities	\$162	\$121	\$140	\$(85)	\$ (171)	\$ 167
	For the Quarter Ended March 31, 2003					
	<u>GEN</u>	<u>NGL</u>	<u>REG</u>	<u>CRM</u>	<u>Other & Eliminations</u>	<u>Consolidated</u>
	(in millions)					
Operating Cash Flows Before Changes in Working Capital	\$ 97	\$ 81	\$ 71	\$140	\$ (124)	\$ 265
Changes in Working Capital	(31)	(39)	(33)	139	106	142
Net Cash Provided by (Used in) Operating Activities	\$ 66	\$ 42	\$ 38	\$279	\$ (18)	\$ 407

Operating Cash Flow. Our cash flow provided by operations totaled \$167 million for the quarter ended March 31, 2004. During the quarter, our GEN, NGL and REG segments provided positive cash flow from operations. GEN provided cash flow from operations of \$162 million due to positive earnings for the period; NGL provided cash flow from operations of \$121 million primarily due to inventory decreases and positive earnings for the period; and REG provided cash flow from operations of \$140 million primarily due to the withdrawals of gas in storage and positive earnings for the period. Our CRM segment used approximately \$85 million in cash primarily due to fixed payments associated with the power tolling arrangements and the related gas transport agreements. Other and eliminations includes a use of approximately \$171 million in cash primarily due to interest payments to service debt and general and administrative expenses.

Our cash flow provided by operations totaled \$407 million for the quarter ended March 31, 2003. Cash provided in 2003 primarily relates to collateral returns, settlements of risk management assets and sales of natural gas in storage from our CRM business, a \$110 million income tax refund and the operational performances of our GEN, NGL and REG segments. Our GEN segment provided cash flows of \$66 million largely due to strong commodity prices. Similarly, our NGL segment contributed cash flows from operations of \$42 million due to increasing commodity prices, which benefited our upstream and marketing businesses, offset by higher prepayments. Our REG segment contributed operating cash flows of \$38 million, primarily from normal operating conditions and withdrawals of gas from storage. General and administrative costs and continued extinguishment of liabilities during our exit from our communications business partially offset these positive operational cash flows during the quarter ended March 31, 2003.

Capital Expenditures and Investing Activities. Cash used in investing activities during the quarter ended March 31, 2004 totaled \$30 million. Capital spending of \$53 million was primarily comprised of \$14 million, \$9 million and \$28 million in the GEN, NGL and REG segments, respectively. The capital spending for the GEN segment primarily related to maintenance capital projects. Capital spending in our NGL segment primarily related to maintenance capital projects and wellconnects, as well as approximately \$2 million on a gathering system expansion. Capital spending in our REG segment primarily related to projects intended to maintain system reliability and new business services. Proceeds from asset sales primarily included \$17 million in proceeds from the

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sale of our remaining financial interest in the Hackberry LNG project and approximately \$5.5 million from the sale of our interest in a power generating facility located in Jamaica.

Cash used in investing activities during the quarter ended March 31, 2003 totaled \$77 million. Capital spending of \$84 million was principally comprised of \$37 million, \$12 million and \$32 million in the GEN, NGL and REG segments, respectively, primarily representing improvements to our existing asset base. The capital spending for the GEN segment included approximately \$17 million spent on the construction of Rolling Hills, with respect to which commercial operation began in June 2003. Proceeds from asset sales primarily included \$20 million in proceeds from the sale of SouthStar offset by \$13 million in cash outflows associated with the sale of our European communications business.

Financing Activities. Cash used in financing activities during the quarter ended March 31, 2004 totaled \$149 million. Repayments of long-term debt totaled \$137 million for the three months ended March 31, 2004 and consisted of the following: (1) payments of \$95 million on a maturing series of Illinova senior notes; (2) payments of \$22 million on Illinois Power's transitional funding trust notes; (3) payments of \$19 million under the ABG Gas Supply financing; and (4) payments of \$1 million on the ChevronTexaco junior notes. Cash used in financing activities also includes a semi-annual dividend payment of \$11 million on our Series C preferred stock.

Cash provided by financing activities during the quarter ended March 31, 2003 totaled \$694 million. During the three months ended March 31, 2003, we borrowed \$712 million, net, under our revolving credit facilities. Long-term debt proceeds, net of issuance costs, for the three months ended March 31, 2003 consisted of \$142 million from the delayed issuance of \$150 million in Illinois Power 11.5% Mortgage Bonds due 2010. Repayments of long-term debt totaled \$158 million for the three months ended March 31, 2003 and consisted of the following: (1) payments of \$94 million under the Renaissance and Rolling Hills interim financing; (2) payments of \$22 million on Illinois Power's transitional funding trust notes; (3) payments of \$19 million under the Black Thunder secured financing; (4) payments of \$18 million under the ABG Gas Supply financing; and (5) purchase of \$5 million of Illinova senior notes on the open market.

Table of Contents**RISK-MANAGEMENT DISCLOSURES**

The following table provides a reconciliation of the risk-management data on the unaudited condensed consolidated balance sheets, statements of operations and statements of cash flows:

	As of and for the Quarter Ended March 31, 2004
	(in millions)
Balance Sheet Risk-Management Accounts	
Fair value of portfolio at January 1, 2004	\$ (137)
Risk-management gains recognized through the income statement in the period, net	16
Cash paid related to risk-management contracts settled in the period, net	26
Changes in fair value as a result of a change in valuation technique(1)	—
Non-cash adjustments and other(2)	(92)
	<u>\$ (187)</u>
Fair value of portfolio at March 31, 2004	<u>\$ (187)</u>
Income Statement Reconciliation	
Risk-management gains recognized through the income statement in the period, net	\$ 16
Physical business recognized through the income statement in the period, net(3)	(21)
Non-cash adjustments and other	(3)
	<u>\$ (8)</u>
Net recognized operating loss	<u>\$ (8)</u>
Cash Flow Statement	
Cash paid related to risk-management contracts settled in the period, net	\$ (26)
Estimated cash paid related to physical business settled in the period, net(3)	(21)
Timing and other, net(4)	15
	<u>\$ (32)</u>
Cash paid during the period	<u>\$ (32)</u>
Risk-Management cash flow adjustment for the quarter ended March 31, 2004(5)	<u>\$ (24)</u>

- (1) Our modeling methodology has been consistently applied.
 (2) This amount primarily consists of changes in value associated with cash flow hedges on forward power sales.
 (3) This amount includes capacity payments on our power tolling arrangements.
 (4) This amount consists primarily of cash received in connection with the settlement of cash flow hedges.
 (5) This amount is calculated as "Cash paid during the period" less "Net recognized operating loss."

The net risk management liability of \$187 million is the aggregate of the following line items on the condensed consolidated balance sheets: Current Assets—Assets from risk-management activities, Other Assets—Assets from risk-management activities, Current Liabilities—Liabilities from risk-management activities and Other Liabilities—Liabilities from risk-management activities.

Risk-Management Asset and Liability Disclosures. The following tables depict the mark-to-market value and cash flow components of our net risk-management assets and liabilities at March 31, 2004 and December 31, 2003:

Mark-to-Market Value of Net Risk-Management Assets(1)

	Total	2004(2)	2005	2006	2007	2008	Thereafter
				(in millions)			
March 31, 2004	\$(117)	\$ (15)	\$ (9)	\$(14)	\$(40)	\$(13)	\$ (26)
December 31, 2003	(144)	(22)	(17)	(25)	(39)	(12)	(29)
	<u>\$ 27</u>	<u>\$ 7</u>	<u>\$ 8</u>	<u>\$ 11</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ 3</u>

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- (1) The table reflects the fair value of our risk-management asset position, which considers time value, credit, price and other reserves necessary to determine fair value. These amounts exclude the fair value associated with

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certain derivative instruments designated as hedges. The net risk-management liabilities at March 31, 2004 of \$187 million on the unaudited condensed consolidated balance sheets include the \$117 million herein as well as hedging instruments. Cash flows have been segregated between periods based on the delivery date required in the individual contracts.

- (2) Amounts represent April 1 to December 31, 2004 values in the March 31, 2004 row and January 1 to December 31, 2004 values in the December 31, 2003 row.

Cash Flow Components of Net Risk-Management Asset

	Three Months Ended March 31, 2004	Nine Months Ended December 31, 2004	Total 2004	2005	2006	2007	2008	Thereafter
				(in millions)				
March 31, 2004 (1)	\$ (7)	\$ (11)	\$(18)	\$ (7)	\$(14)	\$ (43)	\$ (15)	\$ (33)
December 31, 2003			(17)	(14)	(24)	(43)	(15)	(39)
Increase (Decrease)			\$ (1)	\$ 7	\$ 10	\$—	\$—	\$ 6

- (1) The cash flow values for 2004 reflect realized cash flows for the three months ended March 31, 2004 and anticipated undiscounted cash inflows and outflows by contract based on the tenor of individual contract position for the remaining periods. These anticipated undiscounted cash flows have not been adjusted for counterparty credit or other reserves. These amounts exclude the cash flows associated with certain derivative instruments designated as hedges.

The following table provides an assessment of net contract values by year as of March 31, 2004, based on our valuation methodology.

Net Fair Value of Risk-Management Portfolio

	Total	2004	2005	2006	2007	2008	Thereafter
				(in millions)			
Market Quotations (1)	\$ (61)	\$(15)	\$(12)	\$ (3)	\$(27)	\$ (2)	\$ (2)
Prices Based on Models	(56)	—	3	(11)	(13)	(11)	(24)
Total	\$(117)	\$(15)	\$ (9)	\$(14)	\$(40)	\$(13)	\$ (26)

- (1) Prices obtained from actively traded, liquid markets for commodities other than natural gas positions. All natural gas positions for all periods are contained in this line based on available market quotations.

UNCERTAINTY OF FORWARD-LOOKING STATEMENTS AND INFORMATION

This Form 10-Q includes statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as "forward-looking statements." All statements included or incorporated by reference in this quarterly report, other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "project," "forecast," "plan," "may," "will," "should," "expect" and other words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:

- projected operating or financial results, include anticipated cash flows from operations and asset sale proceeds for 2004;
- expectations regarding capital expenditures, interest expense and other payments;

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- our ability to execute the cost-savings measures we have identified;
- our beliefs and assumptions relating to our liquidity position, including our ability to satisfy or refinance our significant debt maturities and other obligations before or as they come due, particularly our \$1.1 billion revolving credit facility;
- our ability to issue public equity under our effective shelf registration statement;
- our ability to address our substantial leverage;
- our ability to compete effectively for market share with industry participants;
- beliefs about the outcome of legal and administrative proceedings, including matters involving the western power and natural gas markets, shareholder claims and environmental and master netting agreement matters, as well as the investigations primarily relating to Project Alpha and our past trading practices;
- our ability to consummate the disposition of specified non-strategic assets on the terms and in the timeframes anticipated, particularly the agreed upon sale of Illinois Power to Ameren; and
- our ability to complete our exit from the CRM business and the costs associated with this exit.

Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors including, among others:

- the timing and extent of changes in weather and commodity prices, including the relationships between prices for power and natural gas or other power generating fuels, commonly referred to as the “spark spread” or “dark spread” depending on the fuel type, and the frac spread;
- the effects of competition in our asset-based business lines;
- the effects of the proposed sale of specified non-strategic assets, particularly the agreed upon sale of Illinois Power to Ameren;
- the condition of the capital markets generally, which will be affected by interest rates, foreign currency fluctuations and general economic conditions, and our ability to engage in capital-raising transactions;
- our financial condition, including our ability to satisfy our significant debt maturities;
- our ability to realize our significant deferred tax assets, including loss carryforwards;
- the effectiveness of our risk-management policies and procedures and the ability of our counterparties to satisfy their financial commitments;
- the liquidity and competitiveness of wholesale trading markets for energy commodities, particularly natural gas, electricity and natural gas liquids;
- operational factors affecting the start up or ongoing commercial operations of our power generation, natural gas and natural gas liquids and regulated energy delivery facilities, including catastrophic weather-related damage, regulatory approvals, permit issues, unscheduled blackouts, outages or repairs, unanticipated changes in fuel costs or availability of fuel emission credits, the unavailability of gas transportation and the unavailability of electric transmission service or workforce issues;

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- increased interest expense and the other effects of our 2003 restructuring and refinancing transactions, including the security arrangements and restrictive covenants contained in the related financing agreements;
- counterparties' collateral demands and other factors affecting our liquidity position and financial condition;
- our ability to operate our businesses efficiently, manage capital expenditures and costs (including general and administrative expenses) tightly and generate earnings and cash flow from our asset-based businesses in relation to our substantial debt and other obligations;
- the direct or indirect effects on our business of any further downgrades in our credit ratings (or actions we may take in response to changing credit ratings criteria), including refusal by counterparties to enter into transactions with us and our inability to obtain credit or capital in amounts or on terms that are considered favorable;
- the costs and other effects of legal and administrative proceedings, settlements, investigations and claims, including legal proceedings related to the western power and natural gas markets, shareholder claims, claims arising out of the CRM business and environmental liabilities that may not be covered by indemnity or insurance, as well as the FERC, U.S. Attorney and other similar investigations primarily surrounding Project Alpha and our past trading practices;
- other North American regulatory or legislative developments that affect the regulation of the electric utility industry, the demand and pricing for energy generally, increase in the environmental compliance cost for our facilities or that impose liabilities on the owners of such facilities; and
- general political conditions and developments in the United States and in foreign countries whose affairs affect our asset-based businesses including any extended period of war or conflict.

In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements, some of which are included elsewhere in this Form 10-Q. Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements.

All forward-looking statements contained in this Form 10-Q are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this Form 10-Q, except as otherwise required by applicable law.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to the unaudited condensed consolidated financial statements for a discussion of recently issued accounting pronouncements affecting us. Specifically, we adopted certain provisions of FIN No. 46R on March 31, 2004.

CRITICAL ACCOUNTING POLICIES

Please read "Critical Accounting Policies" beginning on page 71 of our Form 10-K for a complete description of our critical accounting policies, with respect to which there have been no material changes since the filing of our Form 10-K.

Table of Contents**Item 3—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Please read Item 7A. Quantitative and Qualitative Disclosures About Market Risk beginning on page 80 of our Form 10-K for a discussion of our exposure to commodity price variability and other market risks, including foreign currency exchange rate risk. Following is a discussion of the more material of these risks and our relative exposures as of March 31, 2004.

Value at Risk ("VaR"). The following table sets forth the aggregate daily VaR of the mark-to-market portion of Dynegy's risk-management portfolio primarily associated with the GEN and CRM segments.

Daily and Average VaR for Risk-Management Portfolio

	March 31, 2004	December 31, 2003
	(in millions)	
One Day VaR—95% Confidence Level	\$ 5	\$ 4
One Day VaR—99% Confidence Level	\$ 7	\$ 6
Average VaR for the Year-to-Date Period—95% Confidence Level	\$ 4	\$ 6

Credit Risk. The following table represents our credit exposure at March 31, 2004 associated with the mark-to-market portion of our risk-management portfolio, on a net basis.

Credit Exposure Summary

	Investment Grade Quality	Non- Investment Grade Quality	Total
	(in millions)		
Type of Business:			
Financial Institutions	\$ 171	\$ —	\$171
Commercial/Industrial/End Users	67	63	130
Utility and Power Generators	22	—	22
Oil and Gas Producers	19	19	38
Other	1	—	1
Total	\$ 280	\$ 82	\$362

Of the \$82 million in credit exposure to non-investment grade counterparties, approximately 84% (\$69 million) is collateralized or subject to other credit exposure protection.

Interest Rate Risk. We are exposed to fluctuating interest rates related to variable rate financial obligations. As of March 31, 2004, our fixed rate debt instruments as a percentage of total debt instruments was approximately 90%. Based on sensitivity analysis of the variable rate financial obligations in our debt portfolio as of March 31, 2004, it is estimated that a one percentage point interest rate movement in the average market interest rates (either higher or lower) over the 12 months ended March 31, 2005 would either decrease or increase income before taxes by approximately \$8 million. Hedging instruments that impact such interest rate exposure are included in the sensitivity analysis. Over time, we may seek to reduce the percentage of fixed rate financial obligations in our debt portfolio through the use of swaps or other financial instruments.

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Derivative Contracts. The absolute notional financial contract amounts associated with our commodity risk-management, interest rate and foreign currency exchange contracts were as follows at March 31, 2004 and December 31, 2003, respectively:

Absolute Notional Contract Amounts

	March 31, 2004	December 31, 2003
Natural Gas (Trillion Cubic Feet)	2.012	2.364
Electricity (Million Megawatt Hours)	9.257	8.713
Fair Value Hedge Interest Rate Swaps (In Millions of U.S. Dollars)	\$ 25	\$ 25
Fixed Interest Rate Received on Swaps (Percent)	5.706	5.706
Cash Flow Hedge Interest Rate Swaps (In Millions of U.S. Dollars)	\$ 225	\$ 405
Fixed Interest Rate Paid on Swaps (Percent)	3.494	3.448
Interest Rate Risk-Management Contract (In Millions of U.S. Dollars)	\$ 287	\$ 306
Fixed Interest Rate Paid (Percent)	5.500	5.570

Item 4—CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Effective as of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). This evaluation included consideration of our establishment of a disclosure committee and the various processes carried out under the direction of this committee in an effort to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the requisite time periods. While our disclosure controls and procedures provide reasonable assurance that the appropriate information will be available on a timely basis, this assurance is subject to limitations inherent in any control system, no matter how well it may be designed or administered.

Changes in Internal Controls. There was no change in our internal controls over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) identified in connection with the evaluation of our internal controls performed during the first quarter 2004 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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DYNEGY INC.
PART II. OTHER INFORMATION

Item 1—LEGAL PROCEEDINGS

See Note 9 to the accompanying unaudited condensed consolidated financial statements for discussion of the material legal proceedings to which we are a party.

Item 6—EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are included as exhibits to this Form 10-Q:

- 3.3 Amended and Restated Bylaws of Dynegy Inc. (incorporated by reference to Exhibit 3.3 to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 10.1 Amendment to the Dynegy Inc. 401(K) Savings Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 10.2 Amendment to the Dynegy Northeast Generation, Inc. Savings Incentive Plan, effective January 1, 2004 (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K for the Year Ended December 31, 2003 of Dynegy Inc., File No. 1-15659).
- 10.3 Purchase Agreement dated February 2, 2004 among Dynegy Inc., Illinova Corporation, Illinova Generating Company and Ameren Corporation (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Dynegy Inc. filed on February 4, 2004, File No. 1-15659).
- 10.4 Amendment No. 1 to Stock Purchase Agreement dated March 23, 2004 among Dynegy Inc., Illinova Corporation, Illinova Generating Company and Ameren Corporation (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K of Dynegy Inc. filed on March 25, 2004, File No. 1-15659).
- + 10.5 Contract for Consulting Services dated March 19, 2004 between Dynegy Inc. and Daniel L. Dienstbier.
- + 31.1 Chief Executive Officer Certification Pursuant to Rule 13a-14(a) and 15d-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- + 31.2 Chief Financial Officer Certification Pursuant to Rule 13a-14(a) and 15d-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *32.1 Chief Executive Officer Certification Pursuant to 18 United States Code Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- *32.2 Chief Financial Officer Certification Pursuant to 18 United States Code Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Filed herewith.

* Pursuant to Securities and Exchange Commission Release No. 33-8238, this certification will be treated as "accompanying" this report and not "filed" as part of such report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

Table of Contents**(b) Reports on Form 8-K of Dynegy Inc. filed during the first quarter 2004:**

1. We filed a Current Report on Form 8-K on January 6, 2004. Items 5 and 7 were reported and no financial statements were filed.
2. We filed a Current Report on Form 8-K on January 21, 2004. Items 5 and 7 were reported and no financial statements were filed.
3. We filed a Current Report on Form 8-K on January 29, 2004. Items 7 and 12 were reported and no financial statements were filed.
4. We filed a Current Report on Form 8-K on February 3, 2004. Items 7 and 9 were reported and no financial statements were filed.
5. We filed a Current Report on Form 8-K on February 4, 2004. Items 5 and 7 were reported and no financial statements were filed.
6. We filed a Current Report on Form 8-K on February 11, 2004. Items 7 and 9 were reported and no financial statements were filed.
7. We filed a Current Report on Form 8-K on March 17, 2004. Items 5 and 7 were reported and no financial statements were filed.
8. We filed a Current Report on Form 8-K on March 24, 2004. Items 5 and 7 were reported and no financial statements were filed.
9. We filed a Current Report on Form 8-K on March 25, 2004. Items 5 and 7 were reported and no financial statements were filed.
10. We filed a Current Report on Form 8-K on March 31, 2004. Items 7 and 9 were reported and no financial statements were filed.

Table of Contents**DYNEGY INC.****SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DYNEGY INC.

Date: May 7, 2004

By: /s/ NICK J. CARUSO

Nick J. Caruso
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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EX-31.1 3 dex311.htm CERTIFICATION 302 FOR THE CHIEF EXECUTIVE OFFICER

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Bruce A. Williamson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dynegy Inc. ("Dynegy");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Dynegy as of, and for, the periods presented in this quarterly report;
4. Dynegy's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for Dynegy and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Dynegy, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Evaluated the effectiveness of Dynegy's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (c) Disclosed in this quarterly report any change in Dynegy's internal control over financial reporting that occurred during Dynegy's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Dynegy's internal control over financial reporting; and
5. Dynegy's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Dynegy's auditors and the audit committee of Dynegy's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Dynegy's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Dynegy's internal control over financial reporting.

Date: May 7, 2004

By: /s/ BRUCE A. WILLIAMSON

Bruce A. Williamson
President and Chief Executive Officer

EX-31.2 4 dex312.htm CERTIFICATION 302 FOR THE CHIEF FINANCIAL OFFICER

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, Nick J. Caruso, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dynegy Inc. ("Dynegy");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Dynegy as of, and for, the periods presented in this quarterly report;
4. Dynegy's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for Dynegy and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Dynegy, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Evaluated the effectiveness of Dynegy's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (c) Disclosed in this quarterly report any change in Dynegy's internal control over financial reporting that occurred during Dynegy's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Dynegy's internal control over financial reporting; and
5. Dynegy's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Dynegy's auditors and the audit committee of Dynegy's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Dynegy's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Dynegy's internal control over financial reporting.

Date: May 7, 2004

By:

/s/ NICK J. CARUSO

Nick J. Caruso
Executive Vice President and Chief Financial Officer

EX-32.1 5 dex321.htm CERTIFICATION 906 FOR THE CHIEF EXECUTIVE OFFICER

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. (S) 1350

(ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the periodic report of Dynegy Inc. (the "Company") on Form 10-Q for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bruce A. Williamson, President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for the purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: May 7, 2004

By:

/s/ BRUCE A. WILLIAMSON

Bruce A. Williamson
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Dynegy Inc. and will be retained by Dynegy Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EX-32.2 6 dex322.htm CERTIFICATION 906 FOR THE CHIEF FINANCIAL OFFICER

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. (S) 1350**(ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the periodic report of Dynegy Inc. (the "Company") on Form 10-Q for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nick J. Caruso, Executive Vice President and Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for the purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: May 7, 2004

By: /s/ NICK J. CARUSO

Nick J. Caruso
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Dynegy Inc. and will be retained by Dynegy Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EX-10.5 2 dex105.htm CONTRACT FOR CONSULTING SERVICES

EXHIBIT 10.5

CONTRACT FOR CONSULTING SERVICES

This Contract for Consulting Services ("Consulting Contract") is made between Daniel L. Dienstbier ("Consultant") and Dynegy Inc., an Illinois Corporation (the "Company"), and is executed this 19th day of March 2004 and is effective as of May 20, 2004 (the "Effective Date").

1. **TERM OF AGREEMENT.** The term of this Consulting Contract shall commence on the Effective Date and end on May 20, 2006 (the "Termination Date"). The Company retains complete discretion to terminate this Consulting Contract prior to the Termination Date. In the event the Company terminates this Consulting Contract prior to the Termination Date, Consultant's sole remedy for such termination will be limited to the remaining compensation that would have been paid from the Effective Date to the Termination Date.

2. **DUTIES OF CONSULTANT.** Consultant will provide consulting services to the Company regarding issues to be determined in the discretion of the Executive Vice President and General Counsel of the Company (GC), or the Group General Counsel – Litigation (GGC). In his consulting role, Consultant will, upon request of the GC or GGC, give advice on all matters concerning the Company's securities, ERISA and derivative litigation and will undertake special assignments as mutually agreed between Consultant and the GC or GGC. Consultant will bring to the GC's or GGC's attention all issues or matters that Consultant observes and which, based on his knowledge and experience as a businessman, should be brought to the attention of the GC or GGC. Consultant shall observe and comply with all lawful directions and instructions by and on the part of the Company's management, endeavor to promote the interests of the Company, and not at any time do anything which may cause or tend to be likely to cause any loss or damage to the Company in business, reputation or otherwise. Consultant will be invited to attend appropriate Company meetings, including meetings of the Board of Directors, in the discretion of the GC or GGC.

3. **COMPENSATION.** For all services rendered by Consultant to the Company under this Consulting Contract, the Company shall pay Consultant Seventy-five Thousand Dollars (\$75,000) annually to be paid ratably once per calendar quarter at the end of each quarter beginning with the quarter ending on June 30, 2004. Consultant is an independent contractor and, as a result, the Company will not withhold any monies from Consultant's compensation for the purposes of FICA, FUTA or any other federal or state taxing authority. Consultant is solely responsible for any tax liability in whatever country or nation arising from the compensation the Company pays Consultant under the terms of this Consulting Contract. Consultant agrees that, in the event it is determined by some taxing authority that the payments under this Consulting Contract are subject to any United States or foreign tax liability, he shall be fully responsible for said liability and

hereby agrees to fully indemnify and hold the Company harmless for any amounts determined to be due and owing by Consultant, including any fines, interest or penalties.

4. **EXPENSES.** The Company agrees to reimburse Consultant for all reasonable and customary travel expenses for travel related to the performance of his duties as a consultant to the Company upon submission by Consultant of appropriate documentation.

5. **TERMINATION OF THE CONTRACT.** Between the Effective Date and the Termination Date, either the Company or Consultant may terminate this Consulting Contract with thirty (30) days written notice to the other party. If the Company terminates the Consulting Contract under this Section 5, Consultant will be entitled to payment of all monies owed to Consultant as if the term of the Consulting Contract had been completed. Such compensation will be paid to Consultant in one lump sum on the 15th day of the month following the expiration of the thirty (30) day notice period. If Consultant terminates the Consulting Contract under this Section 5, Consultant will not be entitled to any further compensation except that which was earned prior to the date of the written notice of termination.

6. **CONSULTANT'S CONFIDENTIALITY AGREEMENT.** Consultant acknowledges that the Company has established a valuable and extensive trade in the services it provides, which has been developed at considerable expense to the Company. Consultant agrees that, by virtue of the relationship of trust and confidence between Consultant and the Company, Consultant has and will have certain information and knowledge of the business and operations of the Company that are confidential and proprietary in nature, including without limitation, information about finances, processes, technology, litigation, customers and customer contracts.

Consultant agrees that he will not at any time disclose or use, either during or subsequent to the term of this Consulting Contract, any information, knowledge or data which he receives or develops during his relationship with the Company that is considered proprietary by the Company or that relates to the trade secrets of the Company. Such information, knowledge or data includes the following which is by example only: confidential information and knowledge pertaining to the technology, equipment, processes and operations of the businesses of the Company, as well as confidential knowledge and information pertaining to the Company's contracts with employees, employee compensation packages and welfare benefit plans, employee bonus and stock option plans, contracts with customers, accounting or financial data, pricing or salary data, marketing data, business plans and strategies, information concerning profitability or margins, negotiations and contracts, research, customer or vendor lists, inventions, and discoveries ("Proprietary Information").

Consultant further agrees that any materials and/or information developed by him for the Company's use during the term of this Consulting Contract are the sole and exclusive property of the Company. Any materials and information that are the property of the Company shall be returned to the Company immediately upon termination of this Consulting Contract or upon oral or written request. Consultant further agrees that any use of said materials or information subsequent to termination of this Consulting Contract or a request of return shall constitute a violation of this Contract. Consultant agrees that upon termination of this Consulting Contract, he shall promptly return any and all documents containing the above information, knowledge or data, or relating thereto, to the Company. Consultant acknowledges that the Proprietary Information is created at substantial cost and expense to the Company and that unauthorized use or disclosure would cause irreparable injury to the Company.

7. INDEMNITY. If at any time during the term of this Consulting Contract or subsequent to its Termination Date, Consultant is made a party to or threatened to be made a party to any civil, criminal or administrative action, suit or proceeding by reason of the services performed by him for the Company under this Consulting Contract, Consultant shall be indemnified by the Company, to the fullest extent permitted under applicable law, against expenses incurred by him or imposed on him in connection with, or resulting from, the defense of such action, suit or proceeding, or in connection with, or resulting from, any appeal therein, if Consultant acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company, except with respect to matters as to which it is finally adjudged by a court of competent jurisdiction that Consultant is liable to the Company or to another corporation, partnership, joint venture, trust or other enterprise for willful misconduct in the performance of his services. As used herein, the term "expenses" shall include all obligations actually and reasonably incurred by Consultant for the payment of money, including, without limitation, attorney's fees, judgments, awards, fines, penalties and amounts paid in satisfaction of a judgment or in settlement of any such action, suit or proceeding, except amounts paid to the Company or such other corporation, partnership, joint venture, trust or other enterprise by Consultant. The foregoing indemnification provisions shall be in addition to any other rights to indemnification to which Consultant may be entitled.

8. AGREEMENT NOT TO SOLICIT OR RECRUIT EMPLOYEES OF THE COMPANY. Consultant agrees to refrain from soliciting, recruiting, encouraging, or initiating contact with any of the Company's employees in any way for the purpose of offering them employment, either as an employee or as a consultant or adviser, with Consultant, directly or indirectly, for himself or with or for others. Consultant further agrees to refrain from authorizing, directing, or advising any third persons or entities to solicit, recruit, encourage, or initiate contact with any of the Company's employees in any

way for the purpose of offering them employment, either as an employee or as a consultant or adviser, with Consultant, directly or indirectly, for himself or with or for others.

9. CESSATION OF BUSINESS. Notwithstanding any provisions in this Consulting Contract to the contrary, in the event that the Company shall cease operating its business, then this Contract shall terminate as of the last day of the month in which the Company ceases operations, with the same force and effect as if such last day of the month originally was set as the termination date hereof. A merger, acquisition or similar corporate restructuring under which the principal business of the Company is continued shall not be considered cessation of the business of the Company.

10. DISPUTE RESOLUTION. Consultant hereby agrees that any dispute relating to this Consulting Contract or to the breach of this Consulting Contract arising between Consultant and the Company shall be settled by mediation before a mediator mutually selected and agreed upon by the parties. Should a dispute related to the Consulting Contract fail to resolve at mediation, Consultant hereby agrees that the dispute shall be settled by arbitration in accordance with the arbitration rules of the American Arbitration Association. The arbitration proceeding, including the rendering of an award, shall take place in Houston, Texas. All fees and expenses associated with the arbitration shall be borne equally by Consultant and the Company. The award of the arbitrator and/or mediator shall be final and binding upon the parties without appeal or review except as permitted by the Federal Arbitration Act.

11. WAIVER OF BREACH OF AGREEMENT. If either party waives a breach of this Consulting Contract by the other party, that waiver will not operate or be construed as a waiver of any other or subsequent breaches.

12. NOTICE. Any notice given by the Company to Consultant under this Consulting Contract shall be sufficient if in writing and either (1) hand delivered to Consultant, or (2) mailed, returned receipt requested, to Consultant's last address on the records of the Company. Any notice given by Consultant to the Company under this Consulting Contract shall be sufficient if in writing and either (1) hand delivered to the CEO, or (2) mailed, returned receipt requested, to the CEO.

13. ASSIGNMENT. The rights of the Company hereunder may, without the consent of Consultant, be assigned by the Company to any parent, subsidiary, affiliate or successor of the Company. This Consulting Contract is assignable by Consultant only with the express written consent of the CEO.

14. SEVERABILITY. Any provisions of this Consulting Contract prohibited by or unenforceable under any applicable law of any jurisdiction shall as to such jurisdiction be deemed ineffective and deleted from this Consulting Contract without affecting any

other provision of this Consulting Contract or the effectiveness of such provision in any jurisdiction in which it is not prohibited or unenforceable. It is the desire of the parties hereto that this Consulting Contract be enforced to the maximum extent permitted by law, and should any provision contained herein be held unenforceable, the parties hereby agree and consent that such provision shall be reformed to make it a valid and enforceable provision to the maximum extent permitted by applicable law.

15. SURVIVAL OF PROVISIONS. The provisions of Sections 8, 10 and 12 through 17, inclusive, of this Consulting Contract shall survive its termination and shall be enforceable by the Company for a period of four years after such termination, regardless of the circumstances of such termination. The provisions of Section 6 of this Consulting Contract shall survive its termination and shall be enforceable forever.

16. CHOICE OF LAW. This Consulting Contract shall be construed and governed by the laws of the State of Texas. Any and all matters of dispute arising out of, or in any way connected with, this Contract or the relationship between Contractor and the Company, except those matters governed by the dispute resolution provided in Section 9 above, shall be subject to determination only by the Courts of Houston, Harris County, Texas. Contractor and the Company hereby consent and submit to the exclusive jurisdiction of the Courts of Houston, Harris County, Texas.

17. ENTIRE AGREEMENT AND AMENDMENT. This Consulting Contract supersedes any and all other agreements, either oral or in writing, between the parties hereto. This Consulting Contract contains the entire agreement of the parties with respect to the subject matter covered hereby and may be amended, waived or terminated only by an instrument in writing executed by both parties hereto.

Consultant

/s/ DANIEL L. DIENSTBIER

Daniel L. Dienstbier

DYNEGY INC.

/s/ CAROL F. GRAEBNER

By: Carol F. Graebner
Its: Executive President and General
Counsel

Illinois Power Company

Docket 04-_____

285.305 – General Information Requirements Applicable for all Utilities

Historical Test Year 2003

Attached 285.305p: Most recent prospectuses of common stock, preferred stock, and bond offerings of the utility and any parent company.

Illinois Power Company
Docket No. 04-____
Prospectuses
Historical Test Year 2003

Witness: Daniel L. Mortland

SECTION 285.305
Page 1 of 182

Section 285.305 p): Most recent prospectuses of common stock, preferred stock, and bond offerings of the utility and any parent company.

Attached are the most recent prospectuses for Illinois Power and Dynegy Inc.

- Illinois Power Company's \$79.5 million common stock offering in 1985 (3 million shares), the \$100 million 8.0% Trust Originated Preferred Securities ("TOPrS") offering in 1996, and the \$550 million 11.5% mortgage bond offering in 2002.
- Dynegy Inc.'s \$175.0 million 4.75% Convertible Subordinated Debentures due 2023. Only the first 10 pages are included in this filing. The full Offering Circular is 318 pages and can be provided in full if requested.
- IP's direct parent, Illinova, has no outstanding public securities.